

HOUSING ASSISTANCE REHABILITATION PROGRAM (HARP)

PURPOSE

The Housing Assistance Rehabilitation Program (HARP) provides loans and assistance for the rehabilitation and reconstruction of substandard and demolition quality owner-occupied homes.

FUNDING

Funds for Housing Assistance Rehabilitation Program come from the Community Development Block Grant (CDBG) and HOME Investment Partnerships Programs provided on an entitlement basis from the U.S. Department of Housing and Urban Development (HUD).

ELIGIBLE AREA

The eligible area is the entire unincorporated area of Fresno County. Cities that are a part of Fresno's Urban County designation may participate in this program using their share of CDBG or HOME funds.

ELIGIBLE APPLICANT

Property owners who occupy an eligible structure, meet program credit criteria, and have an income that is no more than 80 percent of Fresno County median may apply.

ELIGIBLE STRUCTURES

An eligible structure is a single family residence, mobile home, or manufactured house in need of rehabilitation. Need of rehabilitation is defined as structural condition falling below local minimum building safety codes.

MANUFACTURED HOUSING

Manufactured housing, including mobile homes, is eligible for repairs and rehabilitation if the unit has a permanent foundation either prior to or as the result of rehabilitation. Manufactured housing must be located on land that is held in fee-simple title, land trust, or a long-term ground lease that equals or exceeds the term of the County loan.

ELIGIBLE WORK

Rehabilitation includes health and safety items, main systems of the residence, improvements to the integrity of the structure, and repair or installation of private water wells and septic systems. Ineligible items include luxury items, furniture, and most appliances (ranges are eligible, refrigerators are not). Improvements are either mandatory or recommended:

1. Mandatory improvements: Correction of substandard conditions as per AHP procedures manual.
2. Recommended improvements: Optional repairs, renovations, alterations, and additions that address liveability, deferred maintenance, the efficient use of energy or water, security, lead-based paint, asbestos, overcrowding, and handicapped accessibility, and general property improvements.

APPLICATION PROCEDURES

An initial contact by a prospective client usually is made by telephone. Staff describes the program and screens the caller for preliminary eligibility. This includes asking about the rehabilitation needs of the house. Depending upon the owner's preference, an application may be mailed or can be completed in the AHP office. An appointment is scheduled for the owner to come into the office with the completed application (if mailed) and supporting documents. If the applicant is interested only in minor repairs, an application for the Minor Repair Program is completed.

During the office interview, staff reviews the application (if mailed) and supporting documents or the application is completed at the scheduled meeting. If the application appears to be eligible, the case is submitted to a Rehabilitation Specialist (RS). The RS schedules an inspection appointment to inspect the residence. After the inspection, the Rehabilitation Specialist prepares an mandatory improvements list and cost estimate based upon the mandatory improvements list and optional work items requested by the owner. Following a review of the scope of work and cost estimate, the owner may wish to reduce the scope of optional work to decrease the loan amount.

After the cost estimate has been finalized, the loan officer verifies income, property ownership, etc. If the application appears acceptable, the loan officer prepares a recommendation for consideration by the Finance Committee.

LEAD-BASED PAINT

Housing built prior to 1978 may contain lead-based paint. Lead can cause major health problems, mostly in children under seven years old. Applicants for rehabilitation loans are provided a flyer that discusses the hazards of lead-based paint. Families with children under seven are encouraged to contact the Fresno County Health Services Agency for additional information and possible testing. Testing for and abatement of lead-based paint are eligible loan costs. If it is determined that there is lead-based paint in a structure to be rehabilitated, the cost of abatement can be included in the loan. If

approved by the Finance Committee, cost for abatement that causes loan underwriting limits to be exceeded may be ignored when determining loan eligibility.

LOAN TERMS

Loans carry no interest. Loan principal for applicants with family incomes above 30 percent of median is amortized over no more than 30 years for a conventionally constructed home, 10 years for a manufactured home built prior to June 15, 1976, and 15 years for a manufactured home built on or after June 15, 1976. For applicants with family incomes at or below 30 percent of median, repayment of the loan amount may be deferred until title of property is transferred or applicant no longer resides at property.

Principal balance is due and payable in full if title is transferred prior to the loan being paid off. Terms and conditions of the loan will be included in a Promissory Note secured by a Trust Deed recorded against the property.

If the Community Development loan is made in conjunction with a conventional loan, repayment, if approved by the Finance Committee, may be deferred until title transfers or applicant no longer resides at property and all of the following conditions are met:

1. The interest rate of the primary loan cannot exceed the current FHA mortgage rate by more than two percentage points.
2. The amount of the Community Development loan is no more than 50 percent of the primary loan.
3. The applicant has a good credit history.

CREDIT AND DEBT RATIO

The maximum acceptable ratios of debt to gross income for an applicant is typically 45 percent for principal, interest, taxes and insurance (PITI) for house payments and 65 percent for PITI plus other debt obligations that are longer than 12 months. These ratios may be exceeded by approval of the Finance Committee only under unusual and extenuating circumstances that are necessary and appropriate to achieve program objectives.

BANKRUPTCY

Applicants who have a history of bankruptcy must demonstrate to the Finance Committee at least two years of acceptable credit history.

LOAN-TO-VALUE RATIO

The combined indebtedness of all loans secured against a property shall be no more than 95 percent of estimated after-rehabilitation value for land and improvements. The

Finance Committee may increase the allowable encumbrance to 100 percent of the after-rehabilitation value after considering the following:

1. The County's position relative to other recorded loans.
2. The applicant's credit record.
3. Potential the property has for appreciation in value.
4. The need to make the structure accessible to the handicapped or the need to abate lead-based paint or asbestos.

MAXIMUM LOAN

CDBG FUNDED PROJECTS

The maximum loan amount shall be set by a formula based upon 50 percent of the value of a 1,500 square foot residence using the standard wood frame dwelling square foot cost listed in the Building Standards published by the International Conference of Building Officials, adjusted for geographic location, rounded off to the nearest \$1,000.

At the discretion of the Finance Committee, maximum loan amounts may be increased a maximum of 25 percent provided all of the following conditions are met:

1. The scope of the rehabilitation work is limited to improvements needed to bring the dwelling into compliance with Minimum Housing Standards, to abate lead-based paint or asbestos or to provide for handicapped access.
2. The after-rehabilitation value of the structure/land does not exceed the limits set in this manual.
3. The total debt-to-income and mortgage debt-to-income ratios do not exceed limits set in this manual.
4. The increase in maximum loan amounts will serve the best interests of the program, the neighborhood, and the customer.
5. The County's position relative to other recorded loans is acceptable.
6. The total amount of funds approved in excess of the maximum loan limit in the current funding year shall not exceed 10 percent of the CDBG allocation for that funding year.

Example of individual loan limit calculation
(using 1999 standards)

Base Loan Limit = $50\% \times \$62.30/\text{sf} \times .94$ [Location Adjustment] $\times 1,500\text{sf} =$
\$43,921.50 [use \$44,000]
Maximum Increase = $\$44,000 \times 25\% = \$11,000$
Maximum Total Loan Limit = $\$11,000 + \$44,000 = \$55,000$

Example of Maximum Total Excess Loan Amount for Current Funding Year

1999-00 Allocation $\$678,795 \times 10\% = \$67,880$

HOME FUNDED PROJECTS

The maximum loan is the lesser of combined indebtedness of 95 percent of the after-rehabilitation value (see Loan-to-Value Ratio), or the loan term multiplied by the payment that meets debt ratio requirements of 45% or less (see Credit and Debt Ratio), or 200 percent of the loan limit specified in the CDBG funded program.

SUBORDINATION

Community Development loans may be subordinate to superior loans as long as after rehabilitation value does not exceed the loan to value ratio requirements and the applicant has a good credit history as determined by the Finance Committee. Once Community Development records a loan it will not subordinate to any succeeding loan or agree to refinancing that will increase the principal of a superior loan. A borrower may further encumber their home as long as all new loans are subordinate to the AHP loan.

REFINANCING

Refinancing is not an emphasis of the program. If approved by the Finance Committee, refinancing may occur if all of the following conditions are met:

1. The owner would not otherwise be approved for a loan.
2. Refinancing will enhance Community Development's loan position and make the owner's payments affordable by improving debt-to-income ratios.
3. The amount refinanced with CDBG or HOME funds is no more than half of the estimated cost of rehabilitation.
4. The after-rehabilitation value of the structure/land does not exceed the limits set in this manual.
5. The total loan amount does not exceed the loan limits set in this manual.

Staff encourages owners needing to refinance to work with a conventional lender to the extent possible.

APPRAISALS

Estimates of after-rehabilitation value normally are developed by staff, but the Principal Rehabilitation Specialist has discretion to require an independent appraisal. The independent appraisal shall be paid for by the applicant.

UNDISCLOSED LIENS

Any liens not disclosed on the original application or the subsequent Abstract of Title, and not disclosed to Community Development prior to recording the Deed of Trust may be construed as intent to defraud the County and may initiate the "due and payable" clause of the Promissory Note as well as legal proceedings necessary to protect the Community Development investment.

CONTINGENCY

The Rehabilitation Specialist assists the owner in establishing a contingency for an amount that reflects the complexity of the rehabilitation job. The contingency, generally 10 to 15 percent of the construction cost, is included in the loan amount. Unused contingency reduces loan principal.

ADDITIONAL FUNDS

If the owner contributes funds to increase the scope of the work, the work is authorized by Change Order and the owner-provided funds are placed in the loan account controlled by the County.

LOAN APPROVAL

Owners are advised in writing whether their applications have been approved or denied by staff or the Finance Committee. Denied applicants are advised of the reasons for denial.

CONTRACTOR SELECTION

The owner selects a contractor. It is recommended that the owner meet with three qualified contractors to negotiate a price or obtain a bid that is at or below the allowable cost for the approved scope of work. A qualified contractor must have worker's compensation insurance or be able to otherwise satisfy State of California requirements regarding worker's compensation. In addition, the contractor must have a valid

contractor license issued by the state, liability insurance, and good standing with HUD and the State of California.

OWNER-CONTRACTOR AGREEMENT

The owner and contractor enter into an agreement using a standard contract agreement form provided by the Community Development Division.

OWNER-PROVIDED LABOR

Unless an owner possesses an appropriate contracting license, the owner is not authorized to perform any work on a Community Development Division project.

DISPUTE RESOLUTION

The owner and contractor are expected to resolve disputes that may arise between them during construction, as they are the only parties to the contract. In the unlikely event of a protracted dispute, parties to the contract will be referred to an impartial mediation individual or panel such as the Better Business Bureau's Dispute Resolution Center. The owner/contractor agreement specifies that arbitration shall be had in accordance with the Construction Industry Arbitration Rule of the American Arbitration Association.

CHANGE ORDERS

Once the contract between the contractor and owner has been signed, any changes to the scope of work or price shall be incorporated into the project by a Change Order. Work that is not in compliance with the original agreement or incorporated by Change Order is not eligible for reimbursement.

CONSTRUCTION PERIOD

The construction period is specified in the contract agreement between the owner and contractor. A contractor who exceeds the specified construction period may be subject to liquidated damages negotiated between the owner and contractor. Loan repayment begins either 210 days after construction starts or 30 days after final loan disbursement, whichever is sooner.

BUILDING PERMITS

Building permits and fees are project costs. The contractor is responsible for obtaining and paying for all building permits and associated fees issued or determined by the enforcing jurisdiction. All code inspections are conducted by inspectors from the

appropriate jurisdiction. The contractor shall arrange for code inspections. Owners may not obtain an owner/builder permit.

PROGRESS PAYMENTS

Payments are made as specified by the contract agreement between the owner and contractor. Normally, the agreement will specify four (4) progress payments with the 10% retention payment to be paid 35 days after the Notice of Completion records. The contractor obtains the owner's signature on a request for payment prior to submitting the request to the Community Development Division. Payments are made by the Financial Services Division directly to the contractor.

RIGHT OF RESCISSION

The owner has three business days following the signing of the loan documents to cancel any transaction. Neither Community Development nor the contractor will perform any activity on a project during the three-day rescission period.

TEMPORARY RELOCATION

See the Residential Anti-displacement and Relocation Assistance Policies section of this manual. (Page 45)

LOAN COLLECTION

See the Loan Collection section of this manual. (Page 35)

